

**Brazil Macro Compass**

**BRL Roller Coaster**

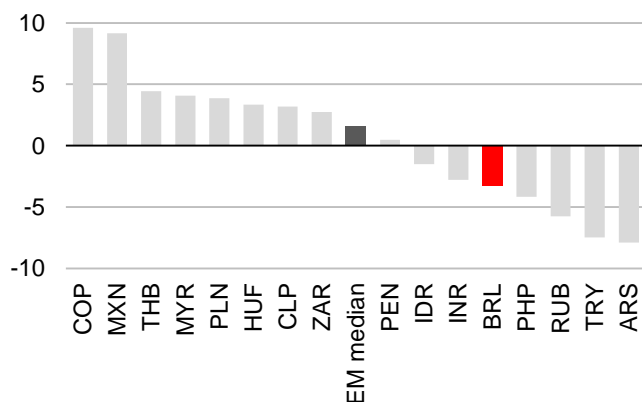
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**Chart of the Week: BRL Ups and Downs**

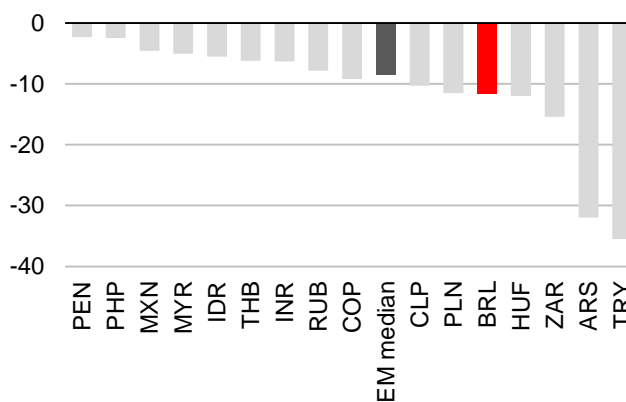
Our “Chart of the Week” tells the story of the EM currency market so far this year. We divided the year into three periods, according to the major trends of the US dollar (DXY): from the beginning of the year until April 16 (slight USD weakening, then sideways), from April 16 until August 14 (USD rally to this year’s high), and from August 14 until the latest data. Although BRL’s recent positive run (began mid-September) has put the currency close to the median year-to-date performance of the EM currencies in the sample, the Brazilian currency was an underperformer in the other periods examined. We expect the BRL/USD rate to finish this year at 3.80, close to its estimated fair value (see our report *Risk Premium: Apples and Oranges*, October 9, 2018).

**2018 Emerging Market Currencies Performance versus USD (%)**

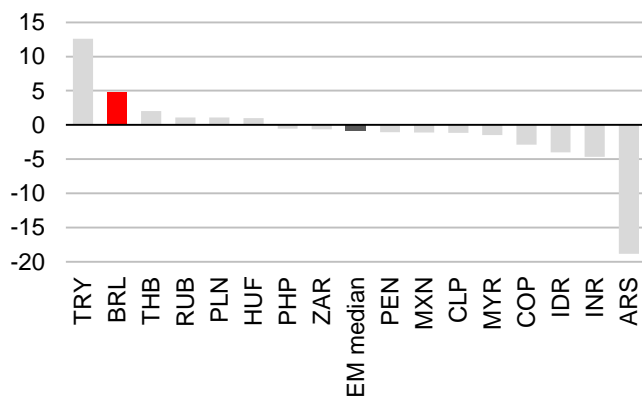
December 30, 2017 – April 16



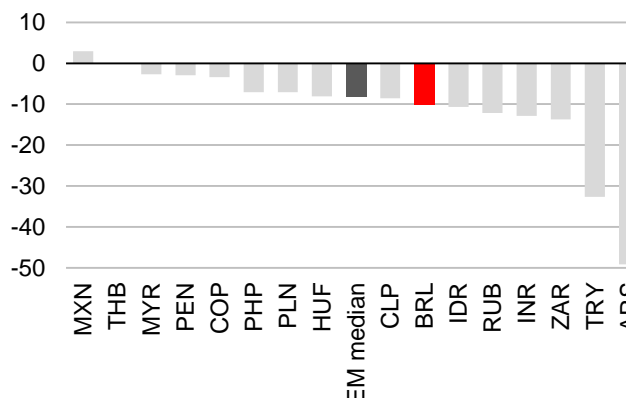
April 16 – August 14



August 14 – October 19



Year-to-date (December 30, 2017 – October 19)



Sources: Bloomberg, Santander.

**IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.**

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## Political Agenda: Stable Polls

Presidential polls released this week did not show significant changes from last week: according to Datafolha's October 18 poll, Jair Bolsonaro widened his lead over Fernando Haddad to 15 pp (50% vs. 35% of total votes), from 13 pp on October 10. Ibope showed a similar trend. A new Ibope poll is scheduled for release on October 23.

## Upcoming Data: October Inflation, September External Accounts, and Job Creation

Next Tuesday IBGE releases October's IPCA-15. We expect monthly inflation at 0.67% (4.62% y/y), mainly on the back of rising foodstuff and fuel prices. Through year-end, we expect a retracement in those items, bringing headline inflation to 4.1%, below the target midpoint.

September balance of payments data should confirm Brazil's strong external position, in our opinion. We expect monthly foreign direct investment inflows at USD 7.1 billion, with a significant contribution from the latest round of oil exploration auctions. The current account should post a USD 500 million surplus in the period, in our view.

We expect net creation of 35k formal jobs in September, after adjusting for seasonal effects. The data will be released next week by the Ministry of Labor. Our forecast for full year 2018 is net creation of 350k jobs, a disappointing figure compared to our estimate at the beginning of the year (800k).

## What's New: Stronger Economic Activity in August

The economic activity indicators released this week surprised on the upside. Services real revenue rose 1.2% between July and August, back to the level registered before the May truckers' strike. Reflecting stronger activity in services and retail, IBC-Br, the Central Bank's monthly GDP proxy, went up by 0.5% in that same period. August was the third straight month of rising IBC-Br, evidence that the Brazilian economy continues to follow a recovery path, although at a moderate pace.

Taking those numbers into account, we expect 3Q18 GDP (to be released on November 30) to have grown 0.6% q/q, in line with our 2018 year-end forecast (1.5%, slightly above market consensus, currently at 1.3%). For 2019, we expect GDP growth to accelerate to 3.2% (see our report *Standby Mode*, September 12, 2018).

## Number of the Week

**USD  
380 bn**

The net wealth of Brazilian families shrank by USD 380 billion in one year, according to the Credit Suisse Research Institute's 2018 Global Wealth Report. Most of that "loss," however, can be explained by a weaker BRL.

## Quote of the Week

*"One cannot believe that the people are wrong and we are right."*

— **Cid Gomes**, senator-elect and brother of presidential candidate Ciro Gomes, in an interview with *Folha de S. Paulo* (October 16, 2018) after publicly criticizing PT (Workers' Party) at a pro-Fernando Haddad rally.

## What We've Been Reading

- *The Monetary and Fiscal History of Latin America* (Becker Friedman Institute for Economics). An upcoming book (scheduled for publication in 2019) on the history of macroeconomic management of the 11 largest Latin American countries since 1960. Working papers are already available.
- "Mexico and Brazil's Crude Politics," by Lisa Viscidi (*Foreign Policy*, October 16, 2018). Renewed resource nationalism is a threat to the national oil companies of both countries, argues the author.
- "The winners and losers of Brazil's elections," by Valeria Saccone (*Global Americans*, October 12, 2018). An overview of the results of the first round of voting.



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- “The surprising supporters of the strongman in Brazil” and *The Centrist Paradox: Political Correlates of the Democratic Disconnect*, by David R. K. Adler (*UnHerd*, October 18, 2018 and *SSRN*, August 4, 2018). Surprisingly, support for democracy is weaker among centrists in Brazil and elsewhere, according to data from the World Values Survey.

### Recent Publications (Available on Our Website)

- *Brazil – Risk Premium: Apples and Oranges* (October 9, 2018)
- *BRL: Between Common and Idiosyncratic Factors* (September 26, 2018)
- *Copom: Hoping for the Best but Prepared for the Worst* (September 17, 2018)
- *Economic Activity: Standby Mode* (September 12, 2018)
- *Worse Financial Conditions at the Margin Reinforce the Likelihood of Selic Remaining “Low for Long”* (August 30, 2018)



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